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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 002950

SIPDIS

DEPT PASS TO AIT/W
DEPT FOR EAP/TC

E.O. 12958: DECL: 07/08/2020

TAGS: [CH](#) [ECON](#) [EINV](#) [ETRD](#) [EWWT](#) [PREL](#) [TW](#)

SUBJECT: CROSS-STRAIT ECONOMIC ROUNDUP - SECOND QUARTER

REF: A. A) TAIPEI 268

[1](#)B. B) TAIPEI 1919

Classified By: DKEEGAN

Summary

[1](#)1. (U) During the second quarter of 2005, Taiwan semiconductor manufacturer United Microelectronics Corporation (UMC), which is under investigation for its affiliation with PRC semiconductor firm He Jian, called on the government to speed up its investigation into the case. The Taiwan Provincial Farmers Association (TPFA) came under criticism from the Mainland Affairs Council (MAC) for its trip to the PRC to discuss fruit export issues. Cross-Strait visitor exchanges showed some signs of slowing briefly after the PRC's passage of the Anti-Secession Law, but high profile visits continued. Taiwan airlines expanded the use of cross-Strait routes through South Korea. End summary.

Investment: UMC Case Update...

[1](#)2. (U) United Microelectronics Corporation (UMC), which is under investigation by the Hsinchu County Prosecutors for its affiliation with PRC semiconductor manufacturer He Jian, ran a large advertisement on June 22 in several Taiwan dailies calling on the government to speed up its investigation into the case and bring charges if any against the firm's management as quickly as possible. It also announced that Chairman Robert Tsao would resign no later than 2007 or earlier if he is convicted of crimes related to the He Jian case. The announcement pointed out that UMC stockholders approved He Jian's proposal to give UMC a 15-percent stake in the Mainland firm as compensation for management advice already provided. Therefore, according to UMC, there should be no basis for allegations that UMC's management violated the interests of shareholders. In the announcement, UMC also noted that Tsao would decline another term as one of President Chen's National Policy Advisors to ensure that UMC's case is handled without political influence.

[1](#)3. (C) Investment Commission Deputy Executive Secretary Emile Chang (strictly protect) told AIT/T that the Commission has the authority and evidence to fine UMC for the illegal transfer of patents to the Mainland affiliate. However, according to Chang, the Minister of Economic Affairs Ho Mei-Yueh is looking for ways to help UMC resolve the legal case without major sanctions. He said the Commission is waiting for instructions from the Mainland Affairs Council (MAC) on how to proceed. He claimed that MAC had been unable to provide instructions because it was waiting for guidance from Taiwan's National Security Council (NSC). When asked, AIT/T NSC contacts bristled at the notion that other agencies were waiting for instructions from the NSC. They pointed out that the case was a judicial matter and was being handled by the Hsinchu Prosecutors Office.

Formosa Plastics Group Investigation...

[1](#)4. (U) In other investment-related developments during the quarter, Taiwan press reported in late June that Formosa Plastics Group's (FPG) had begun construction on a RMB one billion hospital in Xiamen. However, Taiwan's Investment Commission revealed that it had not received an application for approval of the project as required under Taiwan law for investment in PRC hospitals. The Investment Commission will investigate the project and requested that FPG explain its involvement.

CPC/CNOOC Cooperation...

[1](#)5. (U) Taiwan's China Petroleum Corp. on June 28 announced plans to cooperate with the PRC's China National Offshore Oil Company (CNOOC) to explore oil fields around the northern portion of the central line of the Taiwan Straits. A draft of the cooperation pact was submitted to MOEA for approval. In 2002, the two firms had cooperated in exploring oil fields

around the southern portion of the central line.
New Tsingtao Brewery in Taiwan

16. (U) On June 13, Taiwan,s Sanyo Whisbih Group, the Taiwan distributor for the PRC,s Tsingtao brand beer since 2002, announced that its NT\$ 3 billion (USD 93 million) Tsingtao brewery in Taiwan was complete. This is the first brewery in Taiwan to produce a Mainland brand beer. Tsingtao Beer has become Taiwan,s second best selling beer after Taiwan Beer, with a 12 percent market share. With the additional capacity of the new brewery, the group hopes its market share will increase to as high as 25 percent this year.

Trade: Fruit Exports and Dumping Investigations -----

16. (U) The KMT-dominated Taiwan Provincial Farmer Association (TPFA) sent a nine-member delegation led by Chairman Liu Chuan-chung to the PRC on June 22. The group met with the PRC,s Cross-strait Association on Trade Exchanges (CSATC) in Beijing to discuss technical issues related to Taiwan fruit exports, including certificates of origin, customs clearance and quarantine procedures. The delegation told Taiwan press and Taiwan,s Council on Agriculture that it did not sign any agreement or reach any consensus with PRC interlocutors. The Mainland Affairs Council (MAC) has stressed on more than one occasion that the Taiwan External Trade Development Council (TaiTRA), not TPFA, is the only agency authorized by the Taiwan government to negotiate fruit export issues with the PRC. On July 3, MAC issued a press release responding to PRC press reports that TPFA and CSATC had reached a consensus on fruit export issues. MAC pointed out that this would be a violation of Taiwan law and called on TPFA to provide further explanation.

17. (U) During the quarter, the PRC initiated two dumping investigations aimed at Taiwan exporters. On April 13, the PRC announced that it would investigate allegations of dumping by Taiwan spandex exporters. More than 58 percent of Taiwan,s spandex exports go to the PRC. Taiwan is the PRC,s fifth largest supplier after S. Korea, Japan, Singapore and the U.S. On June 7, the PRC announced it would investigate dumping charges against Taiwan and Japanese polybutylene terephthalate (PBT) resin exporters. In 2004, the PRC accounted for 65 percent of Taiwan,s global PBT exports. According to Taiwan,s Bureau of Foreign Trade, this is the ninth dumping investigation case conducted by Mainland China against Taiwan. The PRC also announced on May 31 that it would impose antidumping tariffs of 7.2 to 14.4 percent on unbleached kraft liner/liner board exports (used primarily to make boxes) to the PRC by three Taiwan paper companies after an investigation initiated in March 2004.

Exchanges: ASL Briefly Slows Pace but Visits Continue -----

18. (U) In the weeks following the PRC,s passage of the Anti-Secession Law on March 14, several events underscored the Taiwan government,s effort to slow cross-Straits exchanges. On April 10, MAC temporarily banned reporters from the PRC,s Xinhua News Agency and the People,s Daily. MAC accused the two PRC central government media outlets of filing unbalanced reports that did not help the people of Mainland China better understand Taiwan. MAC also announced on May 30, that five delegations of Mainland exchange visitors had been forced to leave Taiwan during April and May for various reasons such as staying longer than authorized and engaging in unauthorized activities.

19. (U) In response to MAC requests, TaiTRA announced on April 14 the cancellation of its participation in several PRC trade exhibitions, including the May 23 Beijing International Technology Trade Fair. Subsequently, many Taiwan firms cancelled their participation in the Beijing Technology Fair as well. Although Taiwan firms had reserved about 60 booths, only 35 of them were actually used. According to media reports, twenty-five of those were occupied by PowerChip, whose Chairman Frank Huang, was a co-host of the event. Reports indicated that only five Taiwan firms participated in the event.

10. (U) Nevertheless, in addition to the high profile Lien Chan and James Soong visits, cross-Straits exchanges continued. One highlight was the May 31-June 3 Computex Taipei, the world,s second largest computer show. According to the Taipei Computer Association, the host for the event, more than 1,000 Mainland high-tech personnel attended the show, including senior executives from Lenovo, Beijing Founder Electronics, TCL Corp. and Datang Microelectronics Technology, one of the PRC,s largest IC design houses. The show was preceded by a May 26 PRC visit by a Taipei Computer Association delegation to meet with Ministry of Science and Technology officials. After the meeting, the two sides announced plans to cooperate on developing RFID logistics applications.

11. (U) Important visits in the financial sector included a May 21 visit to Taiwan by Vice Chairman Wang Jun of the China International Trust and Investment Corporation (CITIC) Group, the state-owned conglomerate that oversees the Chinese government's international investments. Wang met with officials of the Financial Supervisory Commission and Taiwan's Central Bank of China as well as executives of major financial holding companies such as Fubon, Tai Shin and First Financial Holding Co. On May 26, Taiwan Securities Association (TSA) Chairman Chien Hung-wen visited Beijing and met with Zhuang Yixin, Chairman of the Securities Association of China (SAC), to discuss cross-Straits liberalization of securities markets.

Transportation and Travel: South Korea and Mini-Links

12. (U) Two Taiwan airlines increased cross-Straits air travel options via South Korea during the quarter. On June 13, China Airlines (CAL) and Korean Air jointly announced that they would increase the frequency of Taipei-Seoul flights from 9 flights to 18 per week. CAL and Korean Air both use these flights to provide service from Taipei to seven mainland cities -- Beijing, Shanghai, Qingdao, Shenyang, Tianjin, Xuhuan and Jinan)- in conjunction with PRC airlines. TransAsia Airways on June 30 announced that it would begin twice weekly service from Taipei to Cheju, South Korea, which would connect to onward flights to Dalian, China, on the PRC's Southern Airlines. Far East Air Transport Corp. already offers connections to Shanghai via Cheju with the PRC's Eastern Airlines.

19. (U) The PRC's Xiamen Airlines made an effort to promote international travel via Xiamen Airport for residents of Taiwan-controlled Kinmen Island. On April 4, Deng Dongtao, Vice President of Passenger Service for Xiamen Airlines, led a delegation to visit Kinmen and signed a letter of intent with 11 Kinmen travel agents to promote such travel. In addition, Taiwan-controlled Matsu Island saw its first group of tourists from Fujian since the liberalization of Fujian resident travel to Kinmen and Matsu implemented by Fujian Province in December 2004. On June 27, the 86-member group arrived in Matsu for a three-day trip. Interest in travel to Kinmen has also been low since last year's liberalization measures were implemented; to date only some 2,000 Fujian residents have visited Kinmen.

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